



What Additional Disclosure are Required in the 2020 Financial Statements?

COVID-19 has affected countries and companies. Apart from few sectors, majority of Companies have faced challenges due to COVID 19. Some of these challenges includes disruptions in operations, decrease in demand and managing finances. Few sectors which gained because of change in spending pattern of customers towards consumption at home and medical supplies.

This has leads to additional disclosure covering

- fundamental accounting concept of going concern;
- impairment of assets,
- profit and loss account; and
- financial instruments.

Disclosures of going concern includes liquidity issues and viability of business operations. Difficulties in managing finance or supply chain could result in immediate stopping of business operations. The assessment of going concern may consider a worst-case scenario model and raise questions on the ability of the entity to meet its financial obligations as and when they fall due.

Disclosure of impairment are forward looking and these disclosures provide information about the performance of an entity. These include information on recoverability of assets (including goodwill), assessment of provisions for expected credit losses, inventory valuation and recoverability of deferred tax assets. These disclosures help investors how the entity will operate under different scenarios. The sensitive analysis discloses the sensitivities and assumptions applicable to a particular scenario. For example, a hotel disclosed that the occupancy rate will not pick up for the foreseeable future and the property has been tested for impairment. Disclosures on going concern included whether these circumstances will result in prolonged operational disruption that will, in turn, erode the financial position of the hotel. This was followed by a detailed sensitivity analysis in which the hotel outlined its recovery plan.

The disclosures in profit and loss statement involves issues such as revenue recognition, cost of sales and performance measures. Revenue may be impacted due to reversals, rebates, variable considerations etc. Information should be supplied for revenue in both pre-COVID-19 and COVID-19 reporting periods. Similarly Cost of sales might have increased due to abnormal and unproductive operations costs due to lower capacity utilisation.

The disclosures on financial instruments primarily includes disclosures on loan convenats, modification of loans, concentration of risk, expected credit losses (ECL) and related estimates and judgements. The impact on assessment of ECL due to tough market conditions should be disclosed.

If you want to discuss more on the issues relating to disclosure in the financial statements, please drop us an email at info@premier-brains.com or call us at + 971 4 3542959.

Our experienced and expert team is happy to provide such assistance.

"ALWAYS DOING THE RIGHT THING"